

DANBRO

Accountants and Taxation Specialists



GUIDE TO MANAGED SERVICE COMPANIES LEGISLATION AND DETAILS OF DANBRO ACCOUNTANCY SERVICES

DANBRO

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New Rules for Managed Service Companies

You may be aware that contractors are now subject to new legal obligations as a result of the Government's revised Managed Service Company Legislation (MSCL). To understand the needs of your clients – and most important of all, to advise them correctly – it is essential that you have all the facts to hand about the changes.

This guide aims to give you all the relevant information about MSCL and some practical solutions for your clients.

What are the new rules?

The new rules say that all payments received through a Managed Service Company are employment income. This means that all income received for services provided through MSCs is now subject to PAYE. From 6th August 2007, such income will also be subject to Class 1 National Insurance Contributions.

The legislation applies to all individuals working through MSCs, regardless of how they receive their remuneration.

Where an MSC is unable to pay its PAYE and NIC liability, its debt can be transferred to a third party. These include the company's director, the MSC Provider, and in certain circumstances, other third parties.

Does the legislation apply to my clients?

The legislation *does* apply to:

- People who provide their services through a Managed Service Company.

The legislation *does not* apply to:

- People who provide their services through a Personal Service Company (PSC).

Not all workers who provide their services via intermediaries will be forced into direct employment. These rules simply mean that workers in MSCs have to pay different levels of tax and NICs.

Provided your client's company is not an MSC as defined in the legislation, the new rules will not apply. If your client is in business on their own account and controls their company's finances, they will not be an MSC. However, should you be in any doubt, your client should check with a financial advisor or whoever set up their company.



How will changes affect clients of Accountancy Practices and the companies which provide MSC services?

Here is a direct quotation from section 2.3 of the MSC Guidance document issued by HMRC July 2007.

“HMRC is aware that there is a market for specialist service providers providing corporate solutions to workers genuinely in business on their own account. Whilst such specialist providers may be MSC Providers, it is important to remember that a key issue is whether the services provided constitute being INVOLVED with the client company.”

From the above, we can see that key to the legislation is the existence of an MSC service provider INVOLVED with a client Company. For the MSC legislation to apply the service provider must both fulfill the definition of an MSC Provider AND be involved with their client companies.

Involved is defined in legislation by reference to any one of five activities:

1. Benefiting financially on an ongoing basis from the provision of the services of the individual - An example would be receiving a percentage fee of the contractor's income.
2. Influencing or controlling the provision of the services of the worker - This could include dispute resolution, or ensuring the contractors' attendance at a given workplace.
3. Influencing or controlling the way in which payments to the worker or associate are made. - Only the company's officers should determine how the company distributes its profits.
4. Influencing or controlling the company's finances or any of its activities. - A company's officers should determine how the company and its finances are administered.
5. Giving or promoting an undertaking to make good any tax loss - for example IR35 insurance.

If the MSC provider is involved in any one of these five activities then the new legislation will most likely apply.



How can my clients stay compliant?

If a contractor operates through an MSC, the company must pay tax and national insurance on the “deemed employment income”.

If your client operates through a PSC, the contractor must accept responsibility for the company including all business decisions, and ensure that any accountant they use acts in a Professional Capacity. Attributes of a compliant accountancy service provider for a PSC may be:

- They are operating as a normal accountancy practice, which is governed by an Institute.
- They are not promoting any schemes to make good tax losses.
- The fees charged by the accountancy practice are not a percentage of income, but are the agreed normal fee for accountancy and taxation services.
- The bank account of the PSC is portable and controlled by the Director of the Company.
- The PSC is controlled and managed by the Director of the Company.

How will changes affect Employment Businesses and Agencies?

Pages 42 to 48 of the MSC Guidance issued by HMRC July 2007 gives further help for Agencies, with typical questions and answers.

Quote *“Neither Chapter 9 ITEPA nor section 688A ITEPA (the MSC Legislation) catch Employment Businesses or Employment Agencies carrying on their core business.”*

Q *Can employment agencies operate preferred supplier lists?*

A *Referral of workers to preferred suppliers does potentially (in italics) increase an agencies risk in terms of transfer of debt. However, HMRC does not wish to discourage the use of “preferred supplier lists” as it recognises that they have a legitimate function. To help Agencies decide whether a preferred supplier may (in italics) be an MSC Provider, HMRC has produced “indicators of whether a service provider may be an MSC provider”*

The indicators are produced at the back of this document. Danbro has reviewed the indicator questions and in all aspects can answer **NO**. If the answers to any questions are **YES**, the service provider may be an MSC provider who is involved with client companies.

Contractors should seek the advice of a qualified, professional financial advisor to ensure they do not fall foul of the new legislation. Danbro offers a range of services, detailed below, which can help contractors avoid paying the higher tax rate.



Danbro Services

Danbro provide services to contractors who have their own Personal Service Company, or who would like to work through our Umbrella Company. Because we are an accountancy practice governed by the Institute of Chartered Management Accountants, who do not get 'involved' in our client clients affairs, none of our solutions will be subject to the MSC legislation after 6th April 2007.

Our services include:

- PAYE Umbrella Company
- Limited Company

Umbrella Company

Several contractors will operate simultaneously through our limited company, being an umbrella company. Contractors simply swap their contract with the agency/customer to a contract of employment with our limited company.

The contractor sources the contract that best suits their needs and skills, informing the agency that they will be operating through our umbrella company. The contract will then be made out between our umbrella company and the agency naming your client as the contractor. The contractor then becomes an employee of our umbrella company, by signing our contract of employment, and submits timesheets and expenses to us on-line or by email, fax, post. Personal claims for allowable expenses are submitted on our expenses claim form, along with supporting receipts.

We sign the contract, as an umbrella company on behalf of the contractor. We invoice the agency on receipt of authorised timesheets and expenses. We prepare and send the invoice on the same day that we receive an authorised timesheet. Contractors will also be eligible to join our pension scheme. All administration, bookkeeping and accounts will be handled by us. Our umbrella company option leaves individuals free to do what they do best - contracting.

The benefits include:

- The umbrella option is a service fully approved by the Inland Revenue.
- £5,000,000 Professional Indemnity Cover is included in our umbrella service.
- The umbrella company option provides a comprehensive and generous expense policy.
- When you don't work, you don't pay.
- Our umbrella services require no joining fee, and no termination fee.
- Payslips detail Income, Expenses and deductions.
- The umbrella option provides a Group Pension Scheme.
- Umbrella companies enable income confirmation to support credit / mortgage applications.

Fees for umbrella services depend on how often payments are processed. Monthly payment processing is £60 per month. Weekly payment processing is £20 per week. There are no additional costs for processing expenses, and no hidden charges.

Please note that under the umbrella company option, we share a mutual expectation that any contract taken up with Danbro will be followed by subsequent contracts in the future.



Limited Company

If a client's contract and working practices are outside IR35, then the most tax efficient way for that person to operate would be through a Limited Company. We provide a Limited Company service which may then be tailored to individual's particular needs.


Our standard monthly fee of £80 is based on a yearly fee of £960, payable in 12 equal installments.

We will provide the following for our standard fee:

- Provision of a comprehensive spreadsheet to help with the recording of trading activities and management controls of the company
- Preparation of weekly/monthly pay slips for one fee earning director and one additional non fee earning employee
- Preparation of Quarterly VAT returns
- Advice on the Flat Rate Scheme for VAT
- Dividend administration
- Support for all secretarial matters
- Dealing with all correspondence from HMRC and Companies House
- Preparation of annual PAYE returns
- Preparation and submission of Annual Accounts
- Preparation and submission of corporation tax computations and corporation tax return

Initial Setup

The above assumes that your clients have already set up a Limited Company. If that is not the case, we are able to assist them with the initial setup for a fee of £85 plus VAT, which will include the following -

1. The registering and setting up of your own Limited Company
 2. Registering the Company for PAYE scheme
 3. Registering the Company for VAT – if required
 4. Assistance with the opening of a company bank account
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Tailoring our Services

Here at Danbro we recognise that your clients can vary in terms of the service they want. That's why we provide tailored solutions to give your clients a choice.

(1a) Our Standard Service + Danbro Bookkeeping & Quarterly Management Accounts

If they do not have the time to complete the spreadsheet or to record their trading transactions using a standard accounting package, they may want to send all their paperwork, bank statements, and details of cheques etc to us. The management accounts would provide a snap shot for them of the trading activities of the company via a profit and loss account and balance sheet.

OR

(1b) Our Standard Service + Sales Invoice Administration & Weekly Management Accounts

On their request, we are able to offer the facility to generate sales invoices on behalf of their company which would then be sent to you for payment to be made into their company bank account.

(2) Professional Fee Insurance

As part of the 'Best Practice' advice that we have received from our institute, we offer professional fee insurance, which will cover any accountancy fees, in case of investigation.

(3) IR35 Contract Status Review

(4) Registered Office

On their request Danbro will be the registered office of their company.





Indicators of whether a service provider may be an MSC provider

Questions to Consider

1. Do all of the companies the service provider supports have a unique identifier? (e.g. John Smith (well known provider) Ltd, Pete Brown (well known provider) Ltd.)
2. Does the service provider determine, or seek to determine, terms and conditions relating to the client company, or individual? e.g.:
 - Format of contract
 - Payment arrangements
 - Payment rates
 - Invoicing arrangements
 - Terms under which the individual will work
3. Is authority for any aspect of the company's trading/provision of the individual's services, delegated to the service provider? e.g.:
 - Receipt, or payment, of company funds (particularly payment into a common bank account.)
 - Contractual arrangements
4. Does the service provider interpose themselves between the individual /company and the Recruitment Business in any other way whatsoever?
5. Does the service provider interpose themselves between the individual/company and the client in any other way whatsoever?
6. Does the service provider only support service company clients?
7. Is the individual work seeker unable to change service provider and retain their company?

If the answer to any of the above questions is "yes", particularly questions 2, 3, 4 and 5, the service provider may be an MSC provider.

**To discuss any of our services further, please call us on
01253 600140 or email enquiries@danbro.co.uk**

